

The Corporation of New College Durham

**Minutes of the meeting of the Audit Committee
held on 19 June 2023**

Present:

Joyce Drummond-Hill
Linda Wight
Ian Green
Emily Baxter

Apologies:

Allen Eccles
Paul Monaghan, Durham
County Council

In attendance:

Paul Bradley (Chief Finance Officer)
Bob Metcalf (Executive Director of Finance & Corporate Services)
Adele Dowson (Vice Principal)
Marie O'Brien (Director of Funding and Curriculum Planning) *to and including 23/40*
Nicola Cooke (Audit Manager) (Durham County Council – Internal Audit Service)
John Horsman (Lead Auditor) (Durham County Council – Internal Audit Service)
Lucy Robson – RSM UK Audit LLP (External Audit Service)
Caroline Winter (Head of Governance & Corporation Secretary)

Action

23/33 Chair's introduction

The Chair welcomed everyone to the meeting and reminded members to declare their interests in any item of business to be discussed at the meeting. No interests were declared.

23/34 Audit Committee private discussion with auditors

In line with best practice and as agreed at previous meetings, the Audit Committee met in private with the internal and external auditors to discuss matters of interest or concern.

Paul Bradley, Adele Dowson, Bob Metcalf and Marie O'Brien joined the meeting at 10.10am.

23/35 Apologies for absence were received from Allen Eccles and Paul Monaghan.

Members confirmed they did not require any further discussion about the starred agenda paper C2.

23/36 Minutes of previous meeting (Paper A)

The minutes of the meeting held on 20 March 2023 were agreed as accurate and signed by the Chair. It was agreed to consider the confidential minutes at the end of the agenda.

23/37 Matters arising

23/26 – the Schedule of business for 2023/24 was on the current agenda and the dates would be confirmed with IAS and EAS.

23/27 – RAG ratings had been added to the progress report as requested and the relevant Appendices printed in A3.

23/28 – the developments in relation to NCDAT growth were included in the Risk Management Group (RMG) report as an emerging issue and were expected to be added to the risk register at the next RMG meeting following the transfer of Wellfield School on 1 June 2023.

23/28 – the risk on board recruitment had been reviewed and adjusted.

23/28 – a separate discussion had been arranged on the College's risk management arrangements.

23/38 Student Management Information System (SMIS) (Paper B1)

Nicola Cooke presented Paper B1, the internal audit review of the Student Management Information System (SMIS).

Nicola reported that the review provided moderate assurance with four medium priority recommendations. The Chair asked Marie O'Brien (Director of Funding and Curriculum Planning) for her observations on the report. Marie advised that the audit had been very thorough but that on reflection the content should potentially have been divided into two separate reviews. The report was accurate and reflected a very valuable piece of work. The aim was to test the new system being used to record data to support the ILR claim. In previous years each school had independent systems which gave no visibility on the information recorded. ProMonitor had gone live in September and was still being developed so gaps in the information had been anticipated. The review enabled an assessment of how much progress had been made since implementation and so provided more visibility than previously. Paul Bradley advised that in addition to the focus on ILR data, the two recommendations on use of rooms were relevant to the T Level capital bid. The bid had been challenged on room utilisation and the need for an extension but the new information system would enable easy access to the necessary data and was therefore very valuable from a wider corporate perspective.

Members asked if anything unexpected had emerged from the review and expressed surprise at the weaknesses in the report. Marie confirmed there had been no surprises and that the aim was to ensure that the system purchased was being utilised. The report had been welcome in identifying gaps in reporting and generating recommendations that could be taken forward for this and other future projects. In response to a member's question Marie confirmed that the changes required were minor adjustments rather than fundamental changes. Members sought clarification on the implications of the findings and risk of clawback. Marie confirmed there were financial implications in the context of the ILR claim if the necessary evidence was not in place. There was confidence

that the evidence was available but there remained an issue in bringing everything together into the central system. Whilst this did represent a risk of clawback the position was no different to previous years when the information was held across a number of different systems, and it was noted that the position would be further reviewed as part of the audit by RSM at the end of July when teams would be approached for further evidence to support the ILR claim. Lucy Robson advised that the RSM review was to support the statutory requirements in respect of the accounts and would highlight any risks of potential clawback, so there would be further clarity when this work was complete. Lucy confirmed that the IA report would be shared with the RSM funding team to make them aware of the issues and that whilst there had also been gaps last year these had not been fundamental.

John Horsman commented that the advantage of reviewing a new and unfamiliar system during its implementation was the potential for the findings to assist in developing its use and it was hoped that in addressing the issues the information would be gathered quickly for future claims. Marie reiterated that the audit had been very useful.

Members noted the report.

23/39 Terms of Reference – Curriculum Planning (Paper B2)

Nicola Cooke presented Paper B2, the proposed Terms of Reference for the review of Curriculum Planning.

Marie O'Brien confirmed she was content with the Terms of Reference subject to clarification on when the process would conclude in relation to curriculum plans being live. Members sought and received clarification that the reference to 'appropriate resourcing' extended beyond the planning process to the overall curriculum provision and it was agreed to amend the wording to reflect the point. Members reviewed the risks and discussed the need for the curriculum to be responsive to change and whether the challenges of recruiting in specialist areas limited the ability to develop a curriculum that met employer needs. Adele Dowson advised that planning always looked three years ahead to sector requirements and so the College would work to upskill existing staff through industry placements and CPD where required, but it was agreed to develop the risks to reflect these points. Marie advised that in some courses there may be difficulties in recruiting students and others where higher than expected recruitment would require two groups but that this tended to balance out across the process, which was ongoing to the end of Term 1.

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Members commented that the scope did not make clear where the audit would start and finish and John Horsman advised that paragraph 6 could be amended to clarify that the review would relate to the plan for 2023/24.

JH

Members approved the Terms of Reference subject to the changes discussed.

23/40 Terms of Reference – Follow up audit (Paper B3)

Members reviewed the Terms of Reference for the follow up audit of previous actions. In response to a member's question, Nicola confirmed the length of the audit would be 3 days.

Member's asked about the approach to the review and Nicola confirmed that the output would be a summary report that looked at each recommendation, what the action was and the outcome in respect of each. Members asked that the report included when the recommendation was made to confirm how long an issue was outstanding if not implemented. It was agreed to incorporate this into the report.

JH

Members approved the Terms of Reference for the follow up audit.

Marie O'Brien left the meeting at 10.41am.

23/41 Internal Audit Progress Report (1 March 2023 to 31 May 2023) (Paper B4)

Nicola Cooke presented Paper B4, the internal audit progress report covering the period up to 31 May 2023.

Members reviewed the performance against the internal audit plan to date. It was noted that one audit report had been issued since the previous progress report, providing substantial assurance.

Overall 11 medium priority recommendations had been raised in the audits to date, all of which had been implemented. Members noted the detail of each recommendation provided in appendix 3 and that the testing of implementation would link to the follow up report discussed in the previous item. Members reiterated the need for clarity in the follow up work on when a recommendation had been made and also asked that the report detailed any revisions.

JH

Members noted the report.

23/42 Internal Audit Strategy, Charter and Plan (supported by updated assessment of audit need) (Papers B5 & B6)

Strategic Internal Audit (IA) Plan

Nicola Cooke summarised the process to develop the Strategic Internal Audit Plan for 2023/24, taking a risk-based approach and incorporating a review of the risk register and audit needs assessment, in consultation with the Chief Finance Officer. It was noted that the timetable for the work programme would be confirmed once the plan was approved.

In response to a member's question about development of the plan Paul Bradley advised that this took into account the top 5 risks on the strategic risk register, when they were last audited, the audit findings and what external assurance existed, before considering whether a review was needed at the current time. Paul advised that there were no risks with a lower than satisfactory level of assurance in the register and it was noted in relation to safeguarding that whilst the Ofsted inspection had provided some external assurance, this was not a deep dive and the last IA review would be three years ago by the time of the proposed audit next spring.

The inclusion of health and safety was queried in light of the regular monitoring this received at both the Finance and Resources Committee and Corporation. Paul advised that whilst there were appropriate internal checks and balances the Health and Safety Executive only attended on site if there was a concern, so the issue was a lack of external assurance. Members commented that there was clear scrutiny of individual elements of the system but agreed there would be value in looking holistically at health and safety.

Members suggested that partnerships should be considered for inclusion in light of the significant developments in this area. Paul confirmed that this was an area for future review and a discussion followed on the need to schedule this at a time that would be most beneficial. Paul advised that the new partnerships being proposed were expected to commence in September and it would take time to understand how they were operating. In the meantime, the follow up audit would provide assurance on the recommendations from the previous IA review on the partnership with the LSC. Members were keen to understand as soon as possible whether the issues with the LSC arrangement had been addressed, but felt there was also a need for early assurance on the new partnerships, which could be provided with a review scheduled towards the end of the academic year. Members commented that there had been significant learning from the experience with the LSC and whilst each partnership was different the processes should be very similar and a review this year would give assurance as further proposals came forward. Paul advised that the risk level would increase from the start of the new term when the new partnerships commenced and Lucy Robson commented that this was further heightened as a result of the application of Managing Public Money to colleges following reclassification into the public sector. It was noted that if the follow up audit raised any concerns on the LSC recommendations then there would be scope to revisit the plan during the year if there were changes to the risk profile.

Members reflected on the need to ensure balance across the plan and reviewed the remaining areas proposed. Whilst safeguarding had been included there was no mention of Prevent, which was a medium risk with satisfactory controls. Paul advised he had discussed with the curriculum team and agreed that Prevent could

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be incorporated into a wider scope and reviewed alongside safeguarding.

The inclusion of capital and asset management was queried noting that this was assessed as low risk in the audit needs assessment, and Paul advised that this was proposed due to the significant capital building projects ongoing and in the pipeline including The Hub, the Artificial Grass Pitch and Car Park and the works to Promotion House.

Members considered the risk around recruitment and retention which was high risk but had not been reviewed for some time. Paul advised this had been discussed with the Director of Human Resources and it was felt that the policies and processes were sound and that the challenge was identifying the right people to appoint. It was noted that the curriculum planning review was likely to touch on recruitment and the Finance and Resources Committee also discussed the issue regularly. Members commented that although retention was also an issue, given the national context it was likely that the College was in a similar situation to many organisations. The issue was about being innovative in attracting people and although an audit may help generate further ideas it was unlikely to identify any concerns with controls.

Members were supportive of the inclusion of cyber security as an ongoing area of high risk and also the audit of personnel and payroll following the recent introduction of the new system.

Considering other entries on the risk register, members noted that the Access and Participation Plan was reviewed by the Office for Students and monitored by the Higher Education Quality Curriculum and Students Committee. Members discussed the possible inclusion of board recruitment and succession planning which was recently reassessed as medium risk, however the Head of Governance updated on the recent appointments of Chair designate and Co Vice Chairs as well as the current selection process to fill board vacancies, which provided assurance that this had helped mitigate the risk. Members highlighted the emerging risk around immigration and the potential increase in migrant students requiring support. The Tier 4 licence had been audited in recent years and members felt this should be kept under review.

Members queried the inclusion of Risk Management given the ongoing monitoring through the College RMG, the Audit Committee itself and the work with internal and external audit providers during which any concerns could be raised. Paul advised the aim was to seek assurance on the College's arrangements for managing risk but recognised that this could be reprioritised if the Committee felt there were areas of higher risk.

Members proposed to move the audit of risk management to 2024/25 and replace this in the current year with a review of partnerships, and to extend the review of safeguarding to include

Prevent. The remaining audits proposed in the plan were supported. Members asked whether 5 days would be sufficient for the review of partnerships and it was agreed that when the terms of reference for the review were prepared any concerns about the allocation of days would be highlighted to the Committee for further discussion.

It was agreed that the plan would be revised to incorporate the changes and include a timetable confirming that cyber security and health and safety would be reviewed in Term 1, capital/asset management and safeguarding/Prevent in Term 2 and personnel & payroll and partnerships in Term 3.

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Members approved the Strategic Internal Audit Plan subject to the confirmation of the proposed changes by the Internal Audit Service (IAS).

Internal Audit Charter

Members reviewed the Internal Audit Charter and noted the key updates for 2023/24. All medium and high priority actions would be subject to formal follow up by the IAS, recommendation priorities had been amended to high, medium and low with the low priority rating replacing best practice recommendations as requested by the Committee, and progress reports would be termly rather than quarterly. In response to a request for clarification it was confirmed the reporting period would be to the end of the month preceding the Committee meeting as under current arrangements.

Members approved the Internal Audit Charter.

23/43 External Audit Plan 2023/24 - for the 2022/23 financial year (Paper C1)

Lucy Robson presented Paper C1, the External Audit Plan.

Lucy advised that if any changes were needed following completion of the detailed planning work the report would be reissued. Lucy drew members' attention to the key contact details should any member of the Committee wish to contact the audit team directly, and reminded members that as part of the audit she would also have separate discussions with the Corporation Chair, Accounting Officer and Management Lead.

Members noted the following: the planned scope of work, liaison with internal audit to consider any issues that may impact the external audit including making specific enquiries in respect of fraud, the approach to materiality, the overall timetable, the new approach to risk this year with evaluation using a sliding scale considering the likelihood and magnitude of misstatement and additional testing on areas of higher risk. Members reviewed the key risk areas identified and noted the approach in relation to income recognition with additional testing again this year and follow up of recommendations from the previous year, testing of income

which was a key area in light of the magnitude and range of funding streams and fraud risk, management override or bypassing of internal controls, the pension scheme due to the high degree of estimation by the actuary in their calculation and potential need for consideration of inclusion on the balance sheet, the going concern assessment in the context of the College's capital projects and the challenges of recruitment and retention of students, reclassification into the public sector including the implications for the relationship with the subsidiary, sub-contracting and partnership arrangements, and finally capital works focusing on The Hub, procurement processes and the accounting treatment of costs between capital and revenue.

Lucy drew members' attention to the fees for the work which had previously been the subject of discussion by the Committee. It was noted that the increase was primarily due to new auditing standards, the growth in the College's income and the inflationary increase being seen across the profession.

Members noted the requirement to report any matters relevant to auditor independence and that there were no issues in this respect. The provision of a corporation tax service to the College was also noted although this was not significant in the context of the audit.

Members noted the External Audit Plan.

23/44 External Audit – FE Emerging Issues (Paper C2)

Members noted the Further Education emerging issues document circulated by the External Audit Service.

23/45 Report from College Risk Management Group (Paper D)

Paul Bradley presented Paper D, the report from the College Risk Management Group (RMG).

Members reviewed the updated risk position following the latest RMG meeting noting there were 4 high risks with board recruitment reassessed as medium risk. There were 29 medium risks and 8 low risks.

Members reviewed the areas of emerging risk and Paul highlighted the cost of living crisis including continuing cost increases in energy and materials and the impact on staff, students and residents. The increase in external agency usage was noted in relation to the challenges around recruitment and retention and members were advised that the Directors of Finance and Human Resources were monitoring the position. Other emerging risks included progress on devolution within the region, new HE partnership collaborations and the College's major capital projects.

Members noted the updated action plan and that a risk training package had been agreed, with a date to be confirmed.

Members discussed the approach to categorising some issues as emerging risks rather than including them on the strategic risk register. The inclusion of capital projects that were underway as emerging risks was queried, with members commenting that they should be subject to full assessment. Paul confirmed that The Hub was included in the strategic risk register and that the works on Promotion House were treated as emerging risks until the tenders were returned and works commenced. The risk profile would be determined on the outcome of the tender process in light of whether the works were affordable and if not, this would present a different risk to be assessed.

Members noted the report.

23/46 Provisional Schedule of Business for 2023/24 (Paper E)

Members reviewed and endorsed the provisional Schedule of Business for 2023/24. The Chair advised that the dates in the document were not confirmed and the September meeting date in particular was to be reviewed.

23/47 Written Resolutions passed since the last meeting (Paper F)

Members noted that one Written Resolution had been passed since the previous meeting, to agree the recommendation that Corporation approve the extension of the External Audit Service contract (passed on 18 April 2023).

23/48 Any other business

The Chair advised that this was the last Audit Committee meeting for Linda Wight as her term of office was due to expire on 30 June 2023. Whilst Corporation had previously thanked Linda for her service over 9 years as a governor, the Audit Committee wanted to place on record their thanks for Linda's contribution.

23/49 Date of Next Meeting – TBC

Bob Metcalf, Adele Dowson, Nicola Cooke, John Horsman and Lucy Robson left the meeting.

23/50 Confidential Item – Internal Audit provision (Paper G)

This item is minuted confidentially under minute 23/50a.

23/51 Confidential minutes of the last meeting (Paper A2)

The confidential minutes of the meeting held on 20 March 2023 were agreed as accurate and signed by the Chair.

23/52 Annual Review of Internal Audit Key Performance Indicators (Paper H1)

This item is confidentially minuted under minute 23/52a.

Paul Bradley left the meeting.

23/53 Annual review of Committee's effectiveness and working practices

Members agreed to defer this discussion to the next meeting.

Signed.....**Date**.....